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MARKET ACCESS SECRETARIAT Global Analysis Report

Retail Innovation Metro Group in Germany

June 2016

EXECUTIVE SUMMARY

Grocery retailing has evolved rapidly over the last decade. The integration of e-commerce into the retailing industry has allowed for Multi-Channel retailing and those that are early adopters to technology have an advantage over those who lag behind. Metro Group is a German-based international retailing company that had been resistant to developing a significant online presence and expanding its services, until recently.

Metro Group has stores in over 30 countries in Europe, Africa, and Asia. Their portfolio includes wholesale, food retail, consumer electronics and until recently a department store chain (Galeria Kaufhof) which was sold to Hudson's Bay Company for US\$3.3 billion dollars in June 2015. With Galeria Kaufhof sold, Metro Group is now focused on the retail industry and attempting to regain their market share.

They are currently working to improve their Multi-Channel retailing, by investing heavily into online applications, stores, delivery, and pickup tools. To achieve this they are partnering with external software firms to help develop online tools. Also, Metro Group is working on improving their supply chain through strategic partnerships.

This report identifies two fields of innovation currently being undertaken by Metro Group: Multi-Channel retailing and finding efficiencies in the supply chain. The objective of this report is to describe how these approaches are being used by the retailer and how these changes will affect Canadian suppliers.



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METRO GROUP: COMPANY SNAPSHOT

Metro Group Global Banner Retail Sales - Historic and Forecast (US\$ billions)

	2011	2012	2013	2014	2015 ^E	2016 ^F	2017 ^F	2018 ^F	2019 ^F
Banner Sales	106.3	98.7	100.2	96.2	80.6	77.4	79.9	83.4	87.3

Source: Planet Retail, 2015 F: Forecast E: Estimate

Metro Group is projected to have a decline in sales over the next two years as they adjust their strategies, but after that, it is projected there will be moderate growth until 2019. The group has two companies that offer food and beverage sales, each targeting a different sector (Planet Retail, 2015):

- **Metro Cash and Carry** is a self-service wholesale chain of 764 supermarkets present in 26 countries. In the past, the Cash and Carry stores were using a standardized "one-size-fits-all-strategy", which is not working anymore. As of July 2015, Metro's country divisions will have more entrepreneurial freedom and control over their stores, so that they can adapt to local market trends and needs (Planet Retail, 2015).
- **Real** is a hypermarket with 309 locations in Germany, this store is similar to a Wal-Mart. Real offers food, clothes, and electronics and is marketed as a "one-stop-shop". Currently they are concentrating on online sales, both by delivery of products directly to homes and preparing the products for pickup at one of their locations. (Metro Group, 2015)

Metro Group is in a transition phase; they have sold their department store chain, Galeria Kaufhof, to Hudson's Bay Company for US\$3.3 billion and have pulled out of markets where their stores were underperforming (Euromonitor International, 2015). All of this was done so that Metro Group can now focus on markets where they have been successful and reinvest the money from the sale of their assets into improving the supply chain, online functionality, and renovating stores. Metro Group's market share has dropped over the last five years in Germany and they are now ready to make changes to their organization (Planet Retail, 2015).

One major innovation for Metro Group is Techstars Metro, which is a program that was created to find improvements and add value to the hospitality and food ecosystem. Metro Group accepts applications from businesses and individuals across the world, with ideas to make improvements via software changes, applications created for consumers/suppliers/businesses, and management improvements. They will go through all the applications they receive and take the top 10 ideas where they see potential and then mentor and help develop those ideas. Metro Group will give entrepreneurs the chance to make successful products through their mentoring programs and resources (Metro Group, 2015).

RETAIL MARKET

The top five retailers in the German market will account for more than 70% of the total grocery market share in 2015. Over the last five years, both Edeka and Rewe Group have grown the most through their acquisition of smaller regional retailers. These five retailers all operate a variety of formats, with the exception of Aldi which runs on a single-format basis. Other market leaders have a broad portfolio of companies and brands, which include hypermarkets, superstores, supermarkets, discount stores, cash and carries, and department stores. (Planet Retail, 2015)



Top Five Grocery Retailers in Germany

2015 ^E			
Company	Number of Outlets	Total Grocery Banner Sales in US\$	Total Grocery Market Share %
Edeka	13,271	52,919,300,700	25.9%
Schwarz Group	3,943	33,246,982,527	18.7%
Rewe Group	6,862	31,919,579,073	16.4%
Aldi	4,245	28,121,260,532	14.7%
Metro Group	515	11,139,879,394	6.2%

Source: Planet Retail, 2015 E: Estimate

German consumers expect high-quality food products; however, they are price-sensitive. Germans are devoted to their discounters and private labels. Globally, the country has the highest share of discounters in food retailing (Euromonitor International, 2015). German consumers are taking pride in their products being green. Because of this, German consumers are willing to pay more for sustainable, locally sourced, natural, organic, fair trade, and carbon neutral products (Mintel, 2015).

German consumers are also extremely health-conscious, particularly the baby boomers, who are a large share of the population demographic. They are one of the fittest and healthiest generations in German history and as they age, they grow more health-conscious. Their healthy lifestyles drive the market for health-conscious foods, organic, no additives or preservatives, and low/no/reduced allergens, which are the main new products coming to Germany (Mintel, 2015).

METRO GROUP STRATEGIC CHANGES

Multi-Channel Retailing

Multi-Channel retailing has become a dominant theme for retailers in the 21st Century, and Metro Group is only starting to catch up to their competitors.

Given the popularity and convenience of internet grocery shopping, many retailers are utilizing online stores for taking orders, making deliveries, and offering discounts. Metro Group's implementation of online services lagged behind their competition but they are now making substantial progress in their online portfolio. Metro Group's online retail and delivery businesses grew in the first half of 2014/15 by 10.5% and in the second half increased by 23% (Haniel, 2015).

Thus far, Metro Group has developed a "Click & Collect" business model in China which allows customers to shop for their groceries using their computer or phone and then pickup the groceries at drop off points. In Germany, they have a phone/computer application available so that restaurants and businesses can schedule deliveries and make purchases. They also participate in the loyalty card "Payback" where shoppers receive preferred buying conditions and collect points to redeem for rewards (Planet Retail, 2015).

E-commerce

Despite an increase in online food purchases of 17% last year, buying food online is still not that common. Mainly urban areas have started to use internet retailing in the grocery sector in Germany. German customers today can shop anywhere and anytime via their mobile phones, computers, or tablets. Customers are then able to place their food orders and go to designated pickup locations to receive their goods. This convenience factor is something that the Metro Group is striving for; they want their customers to be able to receive quick and reliable service while keeping costs down (Planet Retail, 2015).



Currently Metro Group has five applications available for customers (Metro Group, 2015):

- **The real-:** This application shows users where self-service stores are located and gives information on special offers. There is also a cooking show incorporated into the App which provides inspiration for the next shopping trip.
- **Metrophone:** This app is tailored to the needs of business customers using Metro Cash & Carry, this application allows customers to order goods directly with their smartphone.
- **Real, - Drive:** You can fill your basket on the go and then pickup the items two hours later at a desired location.
- **Metro simply delicious:** This application features recipes that are composed by experts and Michelin-starred chefs that provide step-by-step instructions, which make recipes easy to follow.
- **Eat good food:** This application allows consumers to access Metro Group's cookbook from their phone, the cookbook offers recipes, instructions, and wine recommendations.

These applications can help suppliers differentiate themselves by providing additional information with their products that are tailored to the different forms of shopping. With the applications that are available for consumers at Metro Group, there is an opportunity to include recipes with your product, health information, and partnering with other suppliers who would complement your product. Metro Group is working on improving these applications and developing new ones. Suppliers need to stay aware of the trends and continue to add value to their products. (Planet Retail, 2015)

Supply Chain Management

Metro Group has a commitment to sustainable products and sustainability along the supply chain. They are investing in sophisticated logistical and ordering system to help decrease food waste, while still focusing on responsible product management and packaging/consumer information (Metro Group, 2015).

Metro and Auchan entered into an international purchasing partnership in Nov 2014, this will give them more negotiating power when dealing with suppliers. There is also an international sourcing agreement focusing on the joint international purchasing of non-branded goods. Metro and Auchan are hoping this will benefit the consumer as their costs should be lower and there is knowledge to share between the two companies (Metro, 2015).

As of March 2015, Metro Group has partnered with Frequentz Inc., a company that specializes in supply chain management software and processes, in order to build customer trust through supply chain transparency. The objective is to have all of Metro Group's products be traceable to their place of origin, to ensure freshness, and quality while finding cost savings in the supply chain. Metro Group is working towards a sustainable supply chain, responsible product management, packaging, and consumer information that is expected from all their suppliers (prenewswire.com, 2015).

Sustainability

Sustainability is an integral part of Metro Group's business. The company has demonstrated strong interests in considering social and environment requirements in all business decisions and processes. Metro Group believes a leading position in this field will give them a competitive advantage. To this end, the company has made sustainability a strategic focus with the objective to develop and implement binding standards for sustainable business management (Metro Group, 2015).

In 2012, Metro Group resolved to reduce its greenhouse emissions by 20% per square metre of selling space by 2020, based on the emission levels from 2011. The climate protection target refers to emissions



that they can influence directly; such as (Metro Group, 2015):

- Consumption of heating oil, natural gas, liquified petroleum gas, electricity, district heating, district cooling and paper;
- Fuel consumption by company cars and emergency power generators;
- Upstream chain emissions and network losses for all direct and indirect energy sources;
- Procured goods and services (with the exception of paper); and
- Overall external logistics.

Ethical Supply Chain

Metro Group has made a point to be accountable for the products they carry, from their wide range of private label items to branded goods. Suppliers dealing with the company are expected to meet high standards such as demanding quality specifications, observance of animal welfare, environmental aspects, and human rights. Some of the activities as part of their efforts are (Metro Group, 2015):

- Ensuring that suppliers offer humane working conditions worldwide by guaranteeing minimum social standards in product manufacturing;
- Ensuring close co-operation with local economies, authorities and government; and
- Offering marine products that are certified sustainable seafood.

As a result of Metro Group's strong sustainability efforts, suppliers will be expected to be compliant with the company's on-going initiatives. Understanding Metro Group's priorities on the matter at both the local and global level will be an important step towards strategically aligning with the retailer (Metro Group, 2015).

With German consumer trends being for both green and healthy food, it is important for a supplier to be transparent with their product's ingredients and nutritional information. Furthermore, activities such as reducing carbon emissions will continue to be important for Metro Group. Suppliers are advised to align their business processes accordingly to measure and reduce their carbon footprint. Innovation aimed at reducing the environmental impact of products, packaging, or processes is another way to differentiate from other suppliers (Metro Group, 2015).

CONCLUSION

The growth of e-commerce, the use of social networks, and crowd shopping sites will continue to allow retailers to know more about consumers and effectively target initiatives towards these opportunities. At the same time, consumers will have access to more information about retailers and the products they stock and sell.

Innovation at Metro Group will be driven by two points:

- Consumers – understanding the needs of consumers is essential for any future success. Products and services should be built and selected based on the needs of consumers; and
- Technology – identifying how technology can be applied to meet changing consumer needs. Metro Group is currently working on improving applications, and allowing for payment over mobile devices.

Metro Group has lagged behind in their innovativeness in the past, however, they have made changes to their organization to allow innovative thinking. They are adding value to their products, by focusing on their e-commerce business having given consumers the ability to shop from anywhere, find recipes, and set up schedules for deliveries. They have realized they can save on their costs by improving their supply chain and gaining the trust of consumers by allowing for more transparency along their supply chain.

Suppliers of Metro Group need to ensure that their supply chain is as effective and efficient as possible,



by finding ways to cut down on their carbon footprint it will help give an advantage over suppliers who are not as efficient. Suppliers will need to tailor their products to the German market, which means including nutritional information, green labeling, and low-prices. Also, suppliers will need to add value to their product, and be aware that Metro Group offers consumers numerous platforms to view and purchase their goods. By including all information for the product, giving recipes, and developing partnerships with other suppliers that can complement your product you can have an opportunity to be successful in the German Market.

FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

- **Overview of Trade Commissioner Services in Germany**
<http://www.tradecommissioner.gc.ca/eng/contact-our-team.jsp?oid=256&cid=11A>
- **Find a Trade Commissioner**
www.tradecommissioner.gc.ca/eng/find-trade-contacts.jsp

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For additional information on ANUGA 2015, please contact:

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